

Brochure

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This brochure provides information about the qualifications and business practices of Thomas J. Herzfeld Advisors, Inc. If you have any questions about the contents of this brochure, please contact us at 305-271-1900 and/or info@herzfeld.com. The information in this brochure has not been approved or verified by the United States Securities and Exchange Commission or by any state securities authority.

Additional information about Thomas J. Herzfeld Advisors, Inc. also is available on the SEC's website at www.adviserinfo.sec.gov.

Thomas J. Herzfeld Advisors, Inc. is a registered investment adviser with the SEC. This registration does not imply a certain level of skill or training.

Item 2: Material Changes

We have explained the recapitalization and current ownership structure of the firm.

We have changed our suggested minimum account size to \$500,000 for individual clients and \$1,000,000 for institutional clients.

We have amended the affiliations section to include an open-end fund of closed-end funds that Thomas J. Herzfeld, Inc. subadvises.

We have updated the section regarding the code of ethics to include a 30 day holding period rule for employees buying or selling closed-end funds for covered accounts.

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Item 4: Advisory Services

Thomas J. Herzfeld Advisors, Inc. is a registered investment advisor specializing in two areas:

- closed-end funds
- investments in the Caribbean Basin (through its Herzfeld/Cuba division)

Ownership Structure

The firm was established in 1984. The principal owner is Thomas J. Herzfeld who currently owns 100% of the voting stock of the firm. On November 30, 2012 the firm amended its articles of incorporation to authorize two classes of capital stock, namely voting and non-voting common stock, both of which have no par value. As a result of the recapitalization there are currently 1,000 shares of voting common stock and 99,000 shares of non-voting common stock authorized, issued and outstanding, respectively. In addition, in December 2012, Thomas J. Herzfeld, the former sole shareholder gifted 70,000 shares of non-voting common stock to certain family members, who are also employees of the firm, while he retained all of the voting common stock (1,000 shares) and 29,000 shares of the non-voting common stock.

Investment advice offered by the firm is limited to the investment strategies described above. Services are tailored to each client's investment objectives and risk tolerance. Clients may request to be included in a Managed Portfolio program.

The seven Managed Portfolio programs are:

- Managed Portfolio I: balanced/flexible/hedges
- Managed Portfolio II: bond funds
- Managed Portfolio III: foreign funds
- Managed Portfolio IV: equity funds
- Managed Portfolio V: tax-free income funds
- Managed Portfolio VI: special provisions
- Managed Portfolio VII: flexible (open only to RBC clients)

Participation in the Managed Portfolio programs I through VI is open to annual subscribers to *The Investor's Guide to Closed-End Funds* monthly research report. Managed Portfolio VII is open only to RBC clients through an arrangement with selected brokers. Individually managed programs have no participation restrictions.

If a client wishes to impose a specific restriction on investing in certain securities or types of securities, we request that those instructions be submitted to the firm in writing at the time the account is opened or subsequently if the client wishes to add a new restriction. Clients should discuss any such changes with a portfolio manager to clarify how a particular restriction may impact or impair portfolio management.

Discretionary account management is offered on a fee basis. As of December 31, 2012, assets under management totaled \$155 million. All accounts are managed on a discretionary basis.

Item 5: Fees and Compensation

For retail and most institutional clients, investment advisory fees are 0.75% - 2% (negotiable) per annum of the value of a client's assets under management, paid quarterly in arrears. For very large institutional accounts including investment company products, fees are 0.50% to 2% (negotiable) per annum of the value of the client's assets under management, paid quarterly in arrears. Bills are sent following the end of each calendar quarter. Relationships with several of the custodians we use are structured so that fees are deducted from clients' assets after receiving written consent from clients. Clients may request that fees not be automatically deducted and, depending on which custodian is used, we will seek to accommodate their requests. All investment advisory contracts provide for termination upon written request by the client.

In addition to advisory fees, the brokerage firm used to execute client transactions will charge either commissions or a wrap fee. If a separate custodian is used, that custodian may also charge a fee. Clients with mutual funds (including closed-end funds) in their portfolios are effectively paying us and the mutual fund advisor for the management of the client's assets because mutual funds pay advisory fees to their advisors and such fees are therefore indirectly charged to all holders of mutual fund shares. Clients who place mutual fund shares under our management are therefore subject to both our direct management fee and the indirect management fee of the mutual fund advisor. Please see Item 12, Brokerage Practices, for more information.

Thomas J. Herzfeld Advisors, Inc. has acted as and may in the future act as an advisor to sponsors of unit investment trusts. Fees for such services are subject to negotiation. We may be subject to various compliance-related blackout periods for certain closed-end funds which may impact trading in client portfolios.

We may trade on margin for clients' accounts which could result in a high portfolio turnover ratio. This happens infrequently. Furthermore, there are inherent risks associated with this style of management.

Item 6: Not Applicable

Item 7: Type of Clients

Thomas J. Herzfeld Advisors, Inc. provides services to several types of clients including: individuals, investment companies, trusts, corporations and various types of retirement accounts.

The current suggested minimum account size is \$500,000 for retail clients and \$1,000,000 for institutional clients.

Item 8: Methods of Analysis, Investment Strategies and Risk of Loss

Thomas J. Herzfeld Advisors, Inc. uses an active management approach to take advantage of both short- and long-term investment opportunities in closed-end funds. We believe that a continuous trading and rotation of the portfolio, rather than using a buy and hold method, improves the risk/reward relationship increasing allocations to cash when investment opportunities temporarily fade. Flexibility is the key in identifying market dislocations and for taking advantage of seasonal factors.

Our basic strategy identifies funds for purchase based on excessive or unusually wide discount levels and which we believe have an attractive possibility for appreciation. Discounts are evaluated and measured relative to the entire universe of closed-end funds, similar funds and the fund's historical discount and trading patterns. Once a fund is identified via quantitative discount-based analysis, approximately twenty other factors are analyzed, i.e., volatility, liquidity, yield, financial ratios, potential for dissident activity, portfolio earnings assessments, leverage, etc.

Caribbean securities are evaluated based upon fundamental and technical analysis, often with a view towards whether the company will benefit if there is an easing or a lifting of the U.S. embargo against Cuba.

Please note that all investment in securities involves the potential risk of loss. Active trading can affect investment performance after factoring brokerage commissions, other transaction costs and taxes. Closed-end funds trade on the securities exchanges and are subject to some of the same risks associated with trading equity securities such as market fluctuation. Closed-end funds can trade at discounts to their underlying portfolio values (net asset values) and are subject

to the risk of discount widening. Investment in Caribbean securities involves risk of investment on foreign exchanges and, in some cases, currency risk.

Item 9: Disciplinary Information

Thomas J. Herzfeld Advisors, Inc. has no disciplinary information to report.

Item 10: Other Financial Industry Activities and Affiliations

Until December 31, 2010, Thomas J. Herzfeld Advisors, Inc. was affiliated with Thomas J. Herzfeld & Co., Inc., a broker/dealer registered with FINRA. On December 31, 2010, Thomas J. Herzfeld & Co., Inc. ceased operations as a broker/dealer and has withdrawn its registration as such.

Thomas J. Herzfeld Advisors, Inc. is the investment advisor to The Herzfeld Caribbean Basin Fund, Inc. (CUBA), a closed-end fund listed on the NASDAQ Capital Market. The fund was underwritten by the, then, affiliated broker/dealer Thomas J. Herzfeld & Co., Inc. in 1993-1994.

Beginning in September of 2012, Thomas J. Herzfeld Advisors, Inc. entered into an agreement with Virtus Investment Partners whereby Thomas J. Herzfeld Advisors, Inc. serves as subadviser to an open-end fund of closed-end funds, The Virtus Herzfeld Fund.

Item 11: Code of Ethics, Participation or Interest in Client Transactions and Personal Trading

Thomas J. Herzfeld Advisors, Inc. maintains a Code of Ethics which is based on the principle that the directors and officers of the Company owe a fiduciary duty to our clients.

The Code of Ethics includes descriptions of prohibited transactions, exempted transactions as well as compliance procedures. The Code requires that access persons and investment personnel complete initial and annual reports to the Chief Compliance Officer, and that access persons complete quarterly reports. Access persons, excluding independent directors, are also required to have duplicate copies of confirmation and statements of any brokerage account maintained by the person, sent to the Chief Compliance Officer on a timely basis.

The Code of Ethics requires access persons to notify the Chief Compliance Officer of any personal conflict of interest relationship. In addition, the Code of Ethics includes procedures used to report violations of the Code and includes a requirement to annually report any issues, material violations, recommended changes, and a certification that procedures are in place to prevent access persons from violating the Code.

Officers of Thomas J. Herzfeld Advisors, Inc. may, and do have accounts to trade closed-end funds. Procedures are in place to ensure that clients receive the same average price or a better price than employees of the firm if purchases or sales are made on the same day. The Code of Ethics requires that employees of the firm that do not participate in the Managed Account Programs get pre-clearance from the Chief Compliance Officer before they purchase or sell any closed-end fund for their personal account(s). Additionally, the Code of Ethics imposes a 30 day holding period rule for covered accounts of employees buying or selling closed-end funds.

The Code of Ethics is provided to clients upon request.

Item 12: Brokerage Practices

Clients may request that a specific broker be used to execute transactions, however, Thomas J. Herzfeld Advisors, Inc. limits the number of relationships it maintains with brokers and may ask a client to select from a list of brokers already approved.

Brokers are selected based on various criteria which may include the ability to offer a competitive commission rate, the broker has referred his existing brokerage client(s) to the firm for advisory services, as well as other considerations such as maintaining all the client's accounts in one location for convenience, etc. Thomas J. Herzfeld Advisors, Inc. has set up a prime brokerage agreement with Charles Schwab.

Thomas J. Herzfeld Advisors, Inc. seeks to obtain best execution when placing orders with a broker for the purchase and sale of securities. Best execution generally is understood to mean the most favorable cost or net proceeds reasonably obtainable under the circumstances. We will take into account factors such as price, commission, size of order, difficulty of execution, and skill required of the broker. The capability and financial condition of the broker may also be relevant criteria for the choice of that broker.

We currently do not have soft dollar relationships and do not receive research services as a result of any execution commissions paid to broker-dealers.

Brokerage Client Referrals

If a broker refers a client to Thomas J. Herzfeld Advisors, Inc. for advisory services, brokerage transactions for that client are directed to the referring broker and the client's account is maintained at that broker. The commission cost associated with the relationship is considered, but is not the overriding factor in determining which broker will be recommended.

Directed Brokerage

We generally recommend that new clients referred by a specific broker maintain their account with that broker in an already established relationship. If the client asks for recommendations, we provide a list of brokers we currently work with or a specific recommendation after discussion with the client of such considerations as commission rates, online access requirements, level of broker involvement desired, etc. Note that by directing brokerage we may be unable to achieve the most favorable execution of client transactions, which may cost clients more money. This may occur, for example, because we are unable to aggregate orders to reduce transactions costs, or the client may receive a less favorable price.

Whenever possible or practical, we seek to aggregate orders to achieve better executions or more favorable transactions costs.

Item 13: Review of Accounts

Accounts are reviewed on an ongoing basis at least quarterly by the portfolio managers, Thomas J. Herzfeld, President and Portfolio Manager, and Erik M. Herzfeld, Managing Director.

Clients are notified each time a transaction occurs for their account. Clients are accommodated as to the nature and frequency of reports as they request when accounts are opened, or from time to time.

Item 14: Client Referrals and Other Compensation

Thomas J. Herzfeld Advisors, Inc. is available for consulting assignments.

Research and Consulting

Thomas J. Herzfeld Advisors, Inc. provides a monthly supplement to Mr. Herzfeld's book, *The Investor's Guide to Closed-End Funds*, published by McGraw Hill. The report is called "The Investor's Guide to Closed-End Funds, Monthly Update." Monthly updates are provided on a subscription basis with rates updated periodically. Subscription rates are no more than \$500 per

monthly issue with investment professionals currently charged at the Professional Rate of \$3,000 per year for up to five users which includes online access to our Archives. Individual rates for non-professionals remains at \$625 per year. Current subscription rates are subject to change without notice. A pro rata refund of the unused portion of a subscription is provided upon notification of cancellation from the subscriber to our office.

Arrangements are made whereby third parties are compensated based on a percentage of fees paid to the advisor for referring clients.

Item 15: Custody

Securities are held through the custody relationship associated with the broker used to execute transactions. In the case of Delivery Versus Payment (DVP) accounts, a different custodian may be specified by the client.

Thomas J. Herzfeld Advisors, Inc. does not maintain custody of securities.

Item 16: Investment Discretion

All accounts are managed on a discretionary basis which is limited to making investment decisions to buy and sell securities and this arrangement is described in the investment advisory agreement.

Item 17: Voting Client Securities

We have adopted Proxy Voting Policies and Procedures for our discretionary clients; we will vote proxies on behalf of clients unless such clients have chosen to vote their proxies themselves by notifying us of this decision when the account is opened. When voting proxies, our utmost concern is that all decisions be made in the best interest of our clients.

The Company's policies and procedures address which employees are responsible for ensuring that proxies received are voted in a timely manner and that consistent action is taken across all portfolios. The policies also address conflicts of interest which may arise and set voting guidelines, although allowance is made to deviate from such guidelines. The policies also dictate record keeping requirements. Clients may obtain information on how their securities were voted, or copies of the Company's Proxy Voting Policies and Procedures, by requesting this information from us at 305-271-1900.

Item 18: Financial Information

Not applicable.